

Deep River Township
Arenac County, Michigan
Financial Statements
June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

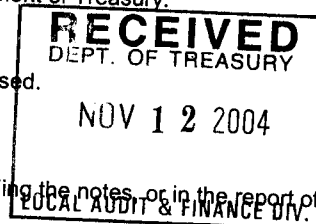
Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name DEEP RIVER TOWNSHIP	County ARENAC
Audit Date 6/30/04	Opinion Date 11/5/04	Date Accountant Report Submitted to State: 11/10/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

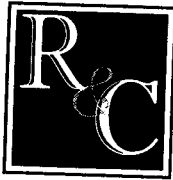
	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓
			✓

Certified Public Accountant (Firm Name) ROBERTSON & CARPENTER, CPAs, LLP			
Street Address 103 E MAIN STREET, PO BOX 69		City ROSE CITY	State MI
Accountant Signature <i>Robertson & Carpenter, CPAs, LLP</i>		ZIP 48654	Date

DEEP RIVER TOWNSHIP

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INDEPENDENT AUDITOR'S REPORT

Township Board
Deep River Township
Arenac County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Deep River Township as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Deep River Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Deep River Township as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2004.

The board's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 26 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Deep River Township's basic financial statements. The accompanying other pages of supplementary information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robertson & Carpenter, CPAs, LLP

Robertson & Carpenter LLP
Certified Public Accountants
November 8, 2004

Management's Discussion and Analysis

As management of Deep River Township (the "Township"), we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended June 30, 2004.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$518,360 (*net assets*). Of this amount, \$183,120 (*unrestricted net assets*) may be used to meet the Township's ongoing obligations
- The Township's total net assets increased by \$50,607.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$238,639, an increase of \$43,338 in comparison with the prior year. The General Fund balance is \$184,312 at June 30, 2004, 77% of the total fund balances. The fund balance in Special Revenue funds is \$55,519.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$183,120 or 106% percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *Government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused sick or vacation leave).

Both of the Government-wide financial statements present functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the Township include general government, public safety, public works, and recreation and culture. The Township has no business-type activities as of and for the year ended June 30, 2004.

The Government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the Government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a Township's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Road Fund. Data from the other two non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Township adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the General Fund and Road Fund herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 11-12 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are *not* reflected in the Government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 14 and 15 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-25 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining fund statements and schedules can be found on pages 26-27 of this report.

Government-wide Financial Analysis

[Because this is the first year of implementation of Governmental Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of Township-wide data will be presented.]

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets exceeded its liabilities by \$518,360 at the close of the most recent fiscal year.

A portion of the Township's net assets (54%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to the community; consequently, these assets are *not* available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Township's Net Assets

	<u>Governmental Activities</u>
Current and Other Assets	
Capital Assets, Net	\$ 243,867
Total Assets	\$ <u>318,170</u>
	\$ 562,037
Current Liabilities	
Long-term Liabilities Outstanding	5,228
Total Liabilities	<u>38,449</u>
	\$ 43,677
Net Assets:	
Invested in Capital Assets, Net of Related Debt	279,721
Restricted	55,519
Unrestricted	<u>183,120</u>
Total Net Assets	\$ <u>518,360</u>

The Township's net assets increased by \$50,607 during the current fiscal year. Unrestricted net assets—the part of net assets that can be used to finance day to day operations, increased by \$21,935 or 14%, during fiscal year 2004.

Township's Changes in Net Assets

	<u>Governmental Activities</u>
Revenue:	
Program Revenue:	
Charges for services	\$ 20,737
Operating Grants and Contributions	7,000
General Revenue:	
Property Taxes	94,936
State-Shared Revenues	124,968
Interest and Rent Earnings	27,562
Other	14,868
	<hr/>
Total Revenue	\$ 290,071
Expenses:	
General Government	\$ 159,850
Public Safety	35,449
Public Works	36,332
Recreation and Culture	4,400
Interest on Long-Term Debt	3,433
	<hr/>
Total Expenses	\$ 239,464
Decrease in Net Assets	50,607
Net Assets, Beginning of Year	<hr/> 467,753
Net Assets, End of Year	\$ 518,360

Governmental activities. The Township's total governmental revenues increased by \$4,661 from last fiscal year. This was primarily attributed to than increase in State-shared revenue of \$6,644. Expenses increased by \$24,686. The increase was attributable to increased operating costs, as well as increased in capital outlay.

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$238,639, an increase of \$43,338 in comparison with the prior year. Approximately 77% of this total amount (\$183,120) constitutes *unreserved fund balance*, which is available for spending at the Township's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are included in special revenue funds and are not available for current expenditure.

The general fund is the principal operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the general fund was \$183,120. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance each represent approximately 106% of total general fund expenditures.

The fund balance of the General Fund increased by \$35,499 during the current fiscal year.

The fund balance of the Road Fund increased by \$6,344 during the current fiscal year.

The fund balance of the Cemetery Fund increased by \$1,495 during the current fiscal year.

General Fund Budgetary Highlights

The Township's budgets are prepared in accordance with Michigan Law. The most significant budgeted fund is the General Fund. The general fund budget was amended during the year. As additional information became known during the fiscal year, budget amendments were made to recognize the additional revenue and/or planned expenditures related to various Township programs.

Capital Asset and Debt Administration

Capital assets. The Township's investment in capital assets for its governmental activities as of June 30, 2004, amounted to \$306,458 (net of accumulated depreciation). Investment in capital assets includes land, buildings, vehicles and equipment. Additions totaled \$10,824 for the fiscal year.

Township's Capital Assets (net of depreciation)

Land	
Buildings and improvements	\$ 69,730
Furniture and Equipment	167,199
	81,241

Total

\$ 318,170

Additional information on the Township's capital assets can be found in note 5 on page 22 of this report.

Long-term debt. The Township currently has two installment loans with balances totaling \$38,449. The loans were used in prior years to purchase a fire truck and pickup truck and are leased to the Sterling Area Fire Board for fire protection purposes.

Factors Bearing on the Township's Future

The following factors were considered in preparing the Township's budget for the 2004-2005 fiscal year:

- The State of Michigan has made significant cuts in their operating budgets due to a downturn in the economy. For 2003-2004, the Township received \$124,968 in state shared revenue, representing 60% of the revenues in the General Fund. The amounts of state shared revenues for future periods are uncertain and will affect the Township's budgets. Our budgets were prepared with these factors in mind and will need to be revised as needed.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Deep River Township
Supervisor's Office
511 E. State Street
Sterling, Michigan 48659

Deep River Township
Statement of Net assets
June 30, 2004

Governmental
Activities

Assets

Cash (Note 3)	\$ 219,726
Accounts receivable (Note 4)	3,971
Due from governmental units (Note 4)	20,170
Capital assets-net	<u>318,170</u>
 Total assets	 <u>562,037</u>

Liabilities

Accounts payable	100
Accrued and other liabilities	1,192
Deferred revenue (Note 4)	3,936
Noncurrent liabilities (Note 7):	
Due within one year	29,073
Due in more than one year	<u>9,376</u>
 Total liabilities	 <u>43,677</u>

Net Assets

Invested in capital assets, net of related debt	279,721
Restricted: -	
Road Fund	45,871
Cemetery Fund	9,648
Unrestricted	<u>183,120</u>
 Total net assets	 \$ <u><u>518,360</u></u>

See accompanying notes

Deep River Township
Statement of Activities
Year ended June 30, 2004

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Governmental Activities				
General government	\$ 159,850	\$ 12,901	\$ 7,000	\$ (139,949)
Public safety	35,449	7,836	-	(27,613)
Public works	36,332	-	-	(36,332)
Recreation and culture	4,400	-	-	(4,400)
Interest on long term debt	3,433	-	-	(3,433)
Total governmental activities	<u>\$ 239,464</u>	<u>\$ 20,737</u>	<u>\$ 7,000</u>	<u>\$ (211,727)</u>
General Revenues:				
Property taxes				94,936
State-shared revenues				124,968
Interest and investment earnings				27,562
Other				14,868
Total general revenues				<u>262,334</u>
Change in Net Assets				50,607
Net assets - beginning of year				<u>467,753</u>
Net assets - end of year				<u>\$ 518,360</u>

See accompanying notes

Deep River Township
Governmental Funds
Balance Sheet
June 30, 2004

	General Fund	Road Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 160,167	\$ 49,807	\$ 9,752	\$ 219,726
Accounts receivable	2	-	-	2
Due from other funds	3,973	-	-	3,973
Due From other governmental units	20,170	-	-	20,170
Total assets	<u>\$ 184,312</u>	<u>\$ 49,807</u>	<u>\$ 9,752</u>	<u>\$ 243,871</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ 100	\$ 100
Due to other funds	-	-	4	4
Due to other governments	1,192	-	-	1,192
Deferred revenue	-	3,936	-	3,936
Total liabilities	<u>1,192</u>	<u>3,936</u>	<u>104</u>	<u>5,232</u>
Fund balances				
Unreserved:				
General Fund	183,120	-	-	183,120
Special Revenue Funds	-	45,871	9,648	55,519
Total fund balances	<u>183,120</u>	<u>45,871</u>	<u>9,648</u>	<u>238,639</u>
Total liabilities and fund balances	<u>\$ 184,312</u>	<u>\$ 49,807</u>	<u>\$ 9,752</u>	<u>\$ 243,871</u>

Fund Balances - Total Governmental Funds

Elimination of due to and due from governmental funds	\$ 238,639
Due to	
Due from	4
Amounts reported for governmental activities in the statement of net assets are different because:	(4)
Capital assets used in governmental activities are not financial financial resources, and are not reported in the funds.	
The cost of capital assets is	
Accumulated depreciation is	\$ 536,590
	<u>(218,420)</u>
Long term liabilities are not due and payable in the current period and are not reported in the fund	318,170
Installment purchase	
Accrued interest is not included as a liability in governmental funds	(38,449)
	-
Net Assets of Governmental Activities	<u>\$ 518,360</u>

See accompanying notes

Deep River Township
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended June 30, 2004

	General Fund	Road Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Taxes and penalties	\$ 53,709	\$ 41,227	\$ -	\$ 94,936
Licenses and permits	7,836	-	-	7,836
State-shared revenues	124,968	-	-	124,968
Charges for services	2,296	-	10,605	12,901
Interest and rentals	4,701	99	22,762	27,562
Other	14,868	-	7,000	21,868
Total revenues	<u>208,378</u>	<u>41,326</u>	<u>40,367</u>	<u>290,071</u>
Expenditures				
Current:				
General government	136,107	-	16,158	152,265
Public safety	12,762	-	-	12,762
Public works	1,350	34,982	-	36,332
Recreation and culture	3,617	-	-	3,617
Capital outlay	10,824	-	-	10,824
Debt service	8,219	-	-	30,933
Total expenditures	<u>172,879</u>	<u>34,982</u>	<u>22,714</u>	<u>30,933</u>
			<u>38,872</u>	<u>246,733</u>
Net changes in fund balances	35,499	6,344	1,495	43,338
Fund balances - Beginning of year	<u>147,621</u>	<u>39,527</u>	<u>8,153</u>	<u>195,301</u>
Fund balances - End of year	<u>\$ 183,120</u>	<u>\$ 45,871</u>	<u>\$ 9,648</u>	<u>\$ 238,639</u>

See accompanying notes

Deep River Township
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
Year ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$ 43,338
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Amounts reported for governmental activities are different because:

Government funds report capital outlays as expenditures;
in the statement of activities these costs are allocated
over their estimated useful lives as depreciation.

Depreciation expense	\$ (31,055)
Capital Outlay	<u>10,824</u>

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental fund until paid	(20,231)
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Repayments of installment purchases principal is an expenditure
in the governmental funds, but not in the statement of
activities (where it reduces long-term debt)

27,500

Change in Net Assets of Governmental Activities

\$ 50,607

See accompanying notes

Deep River Township
Fiduciary Funds
Statement of Net Assets
June 30, 2004

	Trust Fund- Pension Fund	Agency Funds
Assets		
Cash	\$ -	\$ 9,840
Investments - as fair value	255,966	-
Due From other funds	-	-
	<hr/>	<hr/>
Total assets	255,966	<u><u>\$ 9,840</u></u>
Liabilities		
Accounts payable	-	\$ 5,425
Due to other funds	-	3,969
Due to other governments	-	446
	<hr/>	<hr/>
Total liabilities	-	<u><u>\$ 9,840</u></u>
Net Assets - Held in Trust for Pension Benefits	<u><u>\$ 255,966</u></u>	

See accompanying notes

Deep River Township
Fiduciary Fund
Statement of Changes in Net Assets
Year ended June 30, 2004

	Trust Fund- Pension Fund
Additions	
Contributions	
Employer	
Employee	\$ 12,687
Investment earnings	-
	<u>25,128</u>
Total Additions	37,815
 Deductions	
Benefits	
Administrative expenses	43,233
	<u>3,781</u>
Total deductions	47,014
 Net decrease	(9,199)
 Net Assets Held in Trust for Pension Benefits	
Beginning of the year	<u>265,165</u>
End of the year	<u><u>\$ 255,966</u></u>

See accompanying notes

Deep River Township
Notes to Financial Statements
June 30, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Deep River Township ("the Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies used by the Township:

Reporting Entity

The Township is governed by an elected five member Township Board. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Township's reporting entity, and which organizations are legally separate, component units of the Township. Based on the application criteria, the Township does not contain any component units.

Government-wide and Fund Financial Statements

The Government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a certain function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported a separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Deep River Township
Notes to Financial Statements
June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the cash is received by the Township.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund.

The Road Fund is used to record property tax revenue, interest earnings and other revenue restricted for use on Township roads.

Additionally, the Township reports the following funds :

The Pension Trust Fund accounts for the activity of the Township defined contribution retirement plan, which accumulated resources for pension benefit payments to qualified employees.

The Tax Collection Fund accounts for property taxes collected and disbursed to other taxing authorities by the Township as required by law.

The Trust and Agency Fund accounts for assets held by the Township in a trustee capacity or as an agent for individuals, other government units or other funds.

The Fire Fund accounts for the rent received from the Sterling Area Fire Board for the use of the fire truck purchased by the Township and the applicable debt service payments.

The Cemetery Fund reflects the revenues received and expenditures related to the operation of the Sterling Area Cemetery.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers for goods, services or privileges provided and (2) operating grants and contributions. General revenue includes all taxes.

Deep River Township
Notes to Financial Statements
June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between fund that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The taxpayers of the Township have their properties assessed as of December 31 and the related property taxes are levied and become a lien on December 1 for 100% of the taxes which are due February 28. The 2003 taxable value of the Township was \$42,142,382. The 2003 tax levy was .9090 mills for general operating purposes and .9756 mills for the Road Fund raising \$38,494 for general operating purposes and \$41,314 for road improvements.

Inventories and Prepaid items - Inventories are valued at cost, on a first-in, first-out basis. Inventory of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads.), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$ 300 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. Infrastructure assets acquired prior to implementation of GASB 34 are not included in the financial statements.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	25 years
Buildings and additions	50 years
Vehicles	5 years
Office furnishings	5-20 years
Other equipment	5-20 years

Deep River Township
Notes to Financial Statements
June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences - There is no liability for compensated absences reported in the government-wide statements since no township employees are provided with sick or vacation pay benefits.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs are reported as other bond expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriating or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications - Comparative data is not included in the Township's financial statements.

Construction Code Act-The Township tracks the results of building department operations in the General Fund in accordance with Michigan Public Act 245 of 1999. The Township is required to maintain an accounting system that separately accumulates revenues and expenditures related to the building department function. The fee structure is not intended to recover the full cost of the enforcing activity. As required under the provision of the Act, the Township adopted this accounting treatment effective January 1, 2000. A summary of the activity since January 1, 2000 is as follows:

Prior (deficit)		\$ (3,474)
Revenues	7,836	
Building inspection expenditures		
Wages	6,935	
Township share of Medicare	101	
Pension	1,040	
Communication	510	
Transportation	186	
	<u>8,772</u>	
Excess revenues (expenditures)		(936)
Cumulative (deficit)		<u><u>\$ (4,410)</u></u>

Accounting Change - Effective July 1, 2003, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34)*. Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Deep River Township
Notes to Financial Statements
June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Township's activities have been provided.

Capital assets in the governmental activities column of the statement of net assets includes assets totaling \$525,746 previously reported in the General Fixed Asset Account Group. Capital assets being depreciated at July 1, 2003 previously reported in the General Fixed Asset Account Group have been adjusted by \$5,473 to reflect historical cost of the Township's assets at that date. In addition, the governmental activities column includes installment purchase agreements totaling \$28,449 previously reported in the General Long-Term Debt Account Group.

The fund financial statements focus on major funds rather than fund types.

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted account principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township adopt its budgets by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits Townships to amend its budgets during the year. During the year the budgets were amended in a legally permissible. There were no significant amendments during the year.

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until the receipt of materials or services. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances are reappropriated in the next year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township incurred expenditure variances as follows:

<u>Fund and Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
General:			
Debt Service	\$ -	\$ 8,219	\$ 8,219

Note 3 - Deposits and Investments

At year-end the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Township Total</u>
Cash and investments	\$ 219,726	\$ 265,806	\$ 485,532
Total	<u>\$ 219,726</u>	<u>\$ 265,806</u>	<u>\$ 485,532</u>

Deep River Township
Notes to Financial Statements
June 30, 2004

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the Township is as follows:

Deposits (checking, savings)	\$ 229,566
Investments (Michigan Liquid Asset Fund)	255,966
	<u>\$ 485,532</u>

The deposits of the Township were reflected in the accounts of three financial institutions \$229,566 of which \$229,566 is covered by federal depository insurance.

State statutes and the Township's investment policy authorize the Township to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan; the Township is allowed to invest in U.S. Treasury or Agency obligation, U.S. Government repurchases agreements, bankers' acceptances, commercial paper rated prime at the time of purchase which mature not more than 270 days after the date of purchases, mutual funds, investment pools that are composed of authorized investment vehicles. The Township's deposits are in accordance with statutory authority.

The Township's investments at June 30, 2004 consisted of pension plan assets totaling \$255,966.

Investments are normally categorized to give an indication of the level of risk assumed by the Township; however, investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the fund comply with the investment authority noted above.

Note 4 - Receivables

Receivables as of year-end for the Township's individual major funds and the nonmajor and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General Fund	Road Fund	Nonmajor and Other Funds	Total
Receivables:				
Accounts receivable	\$ 2	\$ -	\$ -	\$ 2
Intergovernmental	20,170	-	-	20,170
Total receivables	<u>\$ 20,172</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 20,172</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Metro Act payment not considered available	\$ -	\$ 3,936
Totals	<u>\$ 0</u>	<u>\$ 3,936</u>
Total deferred revenue		<u>\$ 3,936</u>

Deep River Township
Notes to Financial Statements
June 30, 2004

Note 5 - Capital Assets

Capital asset activity of the Township's Governmental activities were as follows:

<u>Assets</u>	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Capital assets being depreciated:				
Land	\$ 69,730	\$ -	\$ -	\$ 69,730
Buildings	218,347	3,862	-	222,209
Furniture & Equipment	237,689	6,962	-	244,651
Subtotal	525,766	10,824	-	536,590
<u>Accumulated Depreciation</u>				
Land	-	-	-	-
Buildings	51,188	3,822	-	55,010
Machinery & Equipment	136,177	27,233	-	163,410
Subtotal	187,365	31,055	-	218,420
Net capital assets being depreciated	338,401	(20,231)	-	318,170
Governmental Activities Total Capital Assets net of Depreciation	\$ 338,401	\$ (20,231)	\$ 0	\$ 318,170

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 7,585
Public safety	22,687
Recreation and culture	783
Total governmental activities	\$ 31,055

Note 6 - Receivables, payables and transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	<u>Amount</u>
General Fund	\$ 3,973	General Fund	\$ -
Road Fund	-	Road Fund	-
Other Nonmajor Govern.	-	Other Nonmajor Govern.	4
Fiduciary Funds	-	Fiduciary Funds	3,969
Total	\$ 3,973	Total	\$ 3,973
<u>Transfer In</u>		<u>Transfer Out</u>	
None	\$ 0	None	\$ 0

Deep River Township
Notes to Financial Statements
June 30, 2004

Note 7 - Long-term Debt

The Township enters into installment purchase agreements to provide for the acquisition equipment as needed by the Township.

Long-term debt activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:				
Installment purchases:				
Fire Truck	\$ 44,693	\$ (20,833)	\$ 23,860	\$ 21,986
2002 Chevrolet	21,256	(6,667)	14,589	7,087
Total Governmental Activities	<u>\$ 65,949</u>	<u>\$ (27,500)</u>	<u>\$ 38,449</u>	<u>\$ 29,073</u>

Annual debt service requirements to maturity for the Installment purchases are as follows:

<u>Year Ended June 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 29,073	\$ 1,861	\$ 30,934
2006	9,376	590	9,966
Total	<u>\$ 38,449</u>	<u>\$ 2,451</u>	<u>\$ 40,900</u>

INSTALLMENT PURCHASE

<u>Payable to:</u>	<u>Original Amount</u>	<u>Equipment</u>	<u>Principal Due</u>
Citizens Bank	\$ 132,466	Fire Truck	\$ <u>23,860</u>

Promissory Note dated July 28, 1998

Rewritten as installment purchase agreement on April 26, 2000

Payable to Citizens Bank in the amount of \$132,466 to finance purchase of fire truck from Ferrara Fire Apparatus, Inc.

Monthly payments of \$1,892.87 including interest at 5.25%

Deep River Township
Notes to Financial Statements
June 30, 2004

Note 7 - Long-term Debt (Continued)

INSTALLMENT PURCHASE

<u>Payable to:</u>	<u>Original Amount</u>	<u>Equipment</u>	<u>Principal Due</u>
Citizens Bank	\$ 27,525.50	Truck	\$ 14,589
Promissory Note dated May 16, 2002			
Rewritten as installment purchase agreement November, 2000			
Payable to Citizens Bank in the amount of \$27,525.50 to finance purchase of truck from			
Richardson Chevrolet Buick, Inc.			
Annual payments of \$8,219.00 plus interest at 7.50%			
Total Installment Purchases			\$ <u>38,449</u>

Note 8 - Risk Management

Deep River Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last three years.

Note 9 - Pension Plan

Deep River Township has a defined contribution plan for employees other than elected officials or part-time workers, through Manulife. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the earned on investments of these contributions, and forfeitures of other participant's benefits that may allocated to such participant's account.

The Township pension plan agreement specifies which Township positions are covered by the plan. Contributions made by an employee and the Township vest immediately. An employee that leaves the employment of the township is entitled to his or her account balance consisting of the employee and and Township contributions, as well as earning in the account. The Township contribution was reduced from 25% to 15% of annual compensation, effective January 1, 2003.

Deep River Township
Notes to Financial Statements
June 30, 2004

Note 9 - Pension Plan (Continued)

During the year, the Township's required and actual contributions amounted to \$12,687, which was 15% of its current year covered payroll plus fees. There were no employee voluntary contributions. Covered payroll was \$89,068. Total payroll was \$96,579.

Employer	\$	12,687
Administration Fees		1,119
	\$	<u>13,806</u>

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees. The plan held no securities of the Township of other related parties during the year or as the close of the fiscal year.

Note 10 - Deferred Compensation Plan

The Deep River Township Board offers all Township employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan were held in the Deep River Plan as described in IRC Section 457(g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof to the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in Deep River Township's financial statements.

Note 11 - Joint Area Fire Board

Deep River Township appropriates funds for fire protection and provides fire department services through the Sterling Area Fire Board. The Fire Board serves the Townships of Adams, Clayton and Deep River.

The following financial information of the fire board, obtained from the Fire Board Secretary, is as of December 31, 2003:

Total Assets	\$65,999	Total Revenues	\$137,864
Total Liabilities	52,297	Total Expenditures	132,864
Total Equity	7,702	(Decrease) in fund balance	5,000

Long-term debt, payable to Citizens Bank, of \$34,415 is outstanding at December 31, 2003.

The Fire Board's most recent biennial audit was as of December 31, 2003.

A copy of the financial statements may be obtained from the Treasurer of the Sterling Area Fire Board, at 4115 Ellison Road, Standish, Michigan.

Required Supplemental Information

Deep River Township
Budgetary Comparison Schedule - General Fund
Year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with
	2004	2004	Budgetary	Final Budget
	Original	Final	Basis	Over (Under)
Fund Balance - Beginning of year	\$ 145,101	\$ 145,101	\$ 147,621	\$ 2,520
Resources (Inflows)				
Taxes and fees	51,600	51,600	53,709	2,109
Licenses and permits	7,000	7,000	7,836	836
State-shared revenues	125,000	125,000	124,968	(32)
Charges for services	1,850	1,600	2,296	696
Interest and rentals	5,010	4,010	4,701	691
Other	400	400	14,868	14,468
Amounts available for appropriation	<u>190,860</u>	<u>189,610</u>	<u>208,378</u>	<u>18,768</u>
Charges to Appropriations (Outflows)				
General government	149,483	159,483	136,107	(23,376)
Public safety	12,500	14,200	12,762	(1,438)
Public works	2,800	2,800	1,350	(1,450)
Recreation and culture	7,000	7,000	3,617	(3,383)
Capital outlay	6,500	11,000	10,824	(176)
Debt service	-	-	8,219	8,219
Total charges to appropriations	<u>178,283</u>	<u>194,483</u>	<u>172,879</u>	<u>(21,604)</u>
Fund Balance - end of year	\$ <u>157,678</u>	\$ <u>140,228</u>	\$ <u>183,120</u>	\$ <u>42,892</u>

Deep River Township
Budgetary Comparison Schedule - Road Fund
Year ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>2004</u>	<u>2004</u>	<u>Budgetary</u>	<u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Basis</u>	<u>Over (Under)</u>
Fund Balance - Beginning of year	30,940	30,940	39,527	8,587
Resources (Inflows)				
Taxes and fees	\$ 37,000	\$ 37,000	\$ 41,227	\$ 4,227
Interest and rentals	75	75	99	24
Other	-	-	-	-
Amounts available for appropriation	<u>37,075</u>	<u>37,075</u>	<u>41,326</u>	<u>4,251</u>
Charges to Appropriations (Outflows)				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	37,000	37,000	34,982	(2,018)
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Total charges to appropriations	<u>37,000</u>	<u>37,000</u>	<u>34,982</u>	<u>(2,018)</u>
Fund Balance - end of year	<u>\$ 31,015</u>	<u>\$ 31,015</u>	<u>\$ 45,871</u>	<u>\$ 14,856</u>

Other Supplemental Information

Deep River Township
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

	Nonmajor Special Revenue Funds		Nonmajor Governmental Funds
	Fire	Cemetery	Total
Assets			
Cash and investments	\$ -	\$ 9,752	\$ 9,752
Due from other funds	-	-	-
Due from other governments	-	-	-
Total assets	\$ <u>0</u>	\$ <u>9,752</u>	\$ <u>9,752</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ -	\$ 100	\$ 100
Due to other funds	-	4	4
Due to other governments	-	-	-
Deferred revenue	-	-	-
Total liabilities	<u>-</u>	<u>104</u>	<u>104</u>
Fund Balances:			
Unreserved	<u>-</u>	<u>9,648</u>	<u>9,648</u>
Total fund balance	<u>-</u>	<u>9,648</u>	<u>9,648</u>
Total liabilities and fund balances	\$ <u>0</u>	\$ <u>9,752</u>	\$ <u>9,752</u>

Deep River Township
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2004

	Nonmajor Special Revenue Funds		Nonmajor Governmental Funds
	Fire	Cemetery	Total
Revenue			
Taxes and fees	\$ -	\$ -	\$ -
Charges for services	-	10,605	10,605
Interest and rentals	22,714	48	22,762
Other	-	7,000	7,000
Total revenue	22,714	17,653	40,367
Expenditures			
General government	-	16,158	16,158
Capital outlay	-	-	-
Debt service	22,714	-	22,714
Total expenditures	22,714	16,158	38,872
Excess of Revenue Over (Under) Expenditures	-	1,495	1,495
Other Financing Sources (Uses)			
Transfers in (out)	-	-	-
Total other financing sources (uses)	-	-	-
Net Change in Fund Balances	-	1,495	1,495
Fund Balances - Beginning of year	-	8,153	8,153
Fund Balances - End of year	\$ 0	\$ 9,648	\$ 9,648

Deep River Township
Combining Statement of Net Assets
Fiduciary Funds
June 30, 2004

	Agency Funds		
	Property Tax Collection Fund	Trust & Agency Fund	Total Agency Funds
Assets			
Cash	\$ 700	\$ 9,140	\$ 9,840
Investments - as fair value	-	-	-
Due from other funds	-	-	-
Total assets	<u>\$ 700</u>	<u>\$ 9,140</u>	<u>\$ 9,840</u>
Liabilities			
Accounts payable	\$ -	5,425	5,425
Due to other funds	700	3,269	3,969
Due to other governments	-	446	446
Total liabilities	<u>\$ 700</u>	<u>\$ 9,140</u>	<u>\$ 9,840</u>